GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:2043
ANSWERED ON:05.08.2005
INTEREST ON LOANS
Chandrappan Shri C.K.;Das Gupta Shri Gurudas

Will the Minister of FINANCE be pleased to state:

(a) whether some of the leading banks such as ICICI and HDFC have increased their Car/Home loan interest rates recently;

(b) if so, the details thereof alongwith the reasons therefor; and

(c) the reaction of the Union Government thereon?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI S.S. PALANIMANICKAM)

(a) to (c) : Yes Sir, ICICI and HDFC have increased their Car/Home loan interest-rates recently. Since RBI has deregulated the interest rates on advances above Rs. 2 lacs with effect from 18th October 1994, the rate of interest on advances are determined by the banks themselves. In order to enhance transparency in banks` pricing of the loan products, banks were advised vide RBI`s Monetary & Credit Policy Statement dated April 29, 2003 to announce a Benchmark Prime Lending Rate (BPLR) taking into account

(i) actual cost of funds,
(ii) operating expenses and

(iii) a minimum margin to cover regulatory requirement of provisioning / capital charge and profit margin, with the approval of respective Board of Directors and ensure that BPLR truly reflects the actual cost. Accordingly, individual banks determine their interest rates to be charged to a particular borrower subject to BPLR and spread guidelines. However, banks are free to charge interest on housing loans, consumer loans without reference to their BPLR. For this reason, the rate of interest on housing and other consumer loans may vary from bank to bank and may also be below or above BPLR. Banks also have freedom to offer all categories of loans on floating rates by using market benchmark in a transparent manner.